

EFFECT OF VDT CROSS-SUBSIDIES ON PRICE CAP CARRIERS

Figure 1 - FCC Price Cap Options

PRODUCTIVITY FACTOR OPTION	EXCESS EARNINGS SHARED <u>WITH RATEPAYERS</u>
4.0%	50% of earnings between 12.25% and 13.25% 100% of earnings over 13.25%
4.7%	50% of earnings between 12.25% and 16.25% 100% of earnings over 16.25%
5.3%	No Sharing Required

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Figure 2-Base Case (5.3 percent productivity assumed)

YEAR	INFL	PROD	PRICE	ROR
0	-	-	-	13.65% *
1	3.3%	5.3%	(2.0%)	13.65%
2	3.3%	5.3%	(2.0%)	13.65%
3	3.3%	5.3%	(2.0%)	13.65%
4	3.3%	5.3%	(2.0%)	13.65%
5	3.3%	5.3%	(2.0%)	13.65%
6	3.3%	5.3%	(2.0%)	13.65%
TOTAL	-	-	(12.0%)	-

Figure 3-VDT Costs Added To Telephone (2.3 percent productivity assumed)

YEAR	INFL	PROD	PRICE	ROR
0	-	-	-	13.65%
1	3.3%	4.0%	(0.7%)	12.80%
2	3.3%	4.0%	(0.7%)	11.95%
3	3.3%	4.0%	(0.7%)	11.10%
4	3.3%	2.3% **	1.0%	11.10%
5	3.3%	2.3%	1.0%	11.10%
6	3.3%	2.3%	1.0%	11.10%
TOTAL	-	-	0.9%	-

* RBOC 1994 Actual (Authorized is 11.25 percent).

** Assumes productivity target lowered by 3.0 percentage points.

Note: This chart assumes FCC adopts rules to separate VDT from telephone costs for intrastate ratemaking.

CERTIFICATE OF SERVICE

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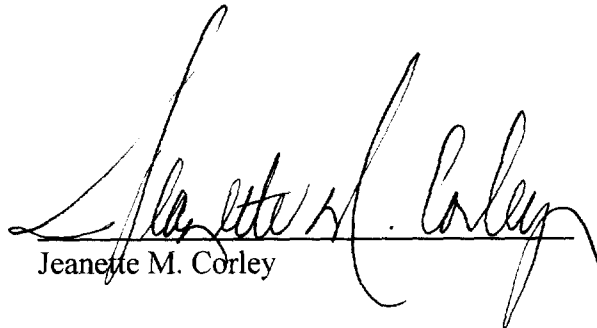
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